

Town of Smyrna, Delaware
Financial Statements and
Independent Auditors' Report
December 31, 2004

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Town of Smyrna, Delaware

Management's Discussion and Analysis

This narrative overview and analysis of the financial statements of the Town of Smyrna, Delaware (the Town) for calendar year ended December 31, 2004 has been prepared by the Town's management. The information presented here should be read in conjunction with the Town's financial statements.

Financial Highlights

- For 2004, total assets of the Town exceeded liabilities by \$18.7 million. \$4.3 million was reported as restricted for various purposes such as capital projects, public works, and police. \$4.1 million was reported as unrestricted funds. The \$4.1 million represents the amount available for use to meet the Town's ongoing business obligations to citizens and creditors. Unrestricted funds were comprised of governmental activities (\$2.6 million) and business-type activities (\$1.5 million).
- The Town implemented the new reporting requirements of Government Accounting Standards Board (GASB) Statement No. 34 for 2004. GASB 34 requires a new financial presentation format. Part of the new financial presentation format is the Management's Discussion and Analysis section of the audited financial statements. The Town has not included comparison analysis to the prior year since this is the first year of complying with GASB 34.
- There were significant changes to the Police Pension Plan (the Plan) for Plan individuals who retire on or after December 31, 2004. Individuals will be eligible to retire after completing 20 years of service. Their retirement will be equal to 2½% of the average compensation of the employee over three highest years' salary. Milliman USA, Inc. estimated the Plan change will require the Town to additionally contribute \$99,000 a year to the Plan.
- Under the Plan for retirees on and after December 31, 2004, the Town will pay 85% of the health insurance coverage of the spouse and all eligible dependents. The retired employee is responsible for the remaining 15%. New accounting standards will soon require the Town to establish a fund for post-retirement benefits.
- The Town held two debt instruments in 2004. The first was a \$75,000 no interest loan from the Delaware Economic Authority for the water main expansion on Route 300. The second loan (\$1.6 million, 20-year, 2.72% interest) was obtained through the drinking water revolving fund administered by the Division of Public Health. The \$1.6 million loan was used to recover expenses incurred for the water well and treatment plant in the Gardenside Development.

Town of Smyrna, Delaware

Management's Discussion and Analysis (Continued)

Overview of the Financial Statements

The basic financial statements present different views of the financial activity of the Town:

- Entity-wide financial statements provide both long-term and short-term information about the Town's financial condition (statement of net assets and statement of activities).
- The second set of financial statements is the fund financial statements. The fund financial statements provide a more in-depth focus than the entity-wide financial statements.
- Notes to the financial statements provide more detail and necessary disclosure issues to the financial statements.
- Required supplementary information further explains and supports the data contained in the financial statements.
- Combining nonmajor fund statements contain further detail on grant and restricted funds.

Entity-Wide Financial Statements

The entity-wide financial statements report information about the Town as a whole using accounting methods similar to those used by a private-sector business.

The statement of net assets includes all of the Town's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets are an indicator of whether the Town's financial position is improving or deteriorating.

The statement of activities presents revenues and expenses and their effect on the change in the Town's net assets during the current fiscal year. These changes in net assets are recorded as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid in accordance with GAAP.

- *Governmental activities* include the general government, public safety, public works, planning and inspection, library, and parks. Property taxes, transfer taxes, permit fees, and transfers from other funds have historically financed most of these activities.

Town of Smyrna, Delaware

Management's Discussion and Analysis (Continued)

- *Business-type activities* are the Town's electric and water and sewer services. The Town finances these activities by charging fees based upon customer usage to recover the costs of providing the services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary funds - Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. The Town uses enterprise funds to account for its water and sewer, and electric distribution operations. The two enterprise funds are considered major funds under the requirements of GASB Statement No. 34.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Town's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. Fiduciary funds are specifically excluded from the

Town of Smyrna, Delaware

Management's Discussion and Analysis (Continued)

Town's government-wide financial statements because the Town cannot use these assets to finance its operation. The Fiduciary funds account for the pension plans for the Town and police employee trust funds.

Financial Analysis of the Town as a Whole

The Town produces entity-wide financial statements using the economic resources measurement focus and the accrual basis of accounting. As represented in the Town's financial statements, the Town's net assets exceeded its liabilities by \$18.7 million.

Capital assets (land, land improvements, buildings, and equipment) comprise a large portion of the Town's net assets.

The Town's net assets as of December 31, 2004 were as follows (presented in millions of dollars):

| | Governmental Activities | Business- Type Activities | Total |
|---|----------------------------|---------------------------------|----------------------|
| ASSETS | | | |
| Noncapital assets | \$ 8.0 | \$2.6 | \$10.6 |
| Capital assets | <u>5.4</u> | <u>6.6</u> | <u>12.0</u> |
| TOTAL ASSETS | <u>\$13.4</u> | <u>\$9.2</u> | <u>\$22.6</u> |
| LIABILITIES | | | |
| Current liabilities | \$ 0.8 | \$1.1 | \$ 1.9 |
| Noncurrent liabilities | <u>0.3</u> | <u>1.7</u> | <u>2.0</u> |
| TOTAL LIABILITIES | <u>\$ 1.1</u> | <u>\$2.8</u> | <u>\$ 3.9</u> |
| NET ASSETS | | | |
| Invested in capital assets net of related debt | \$ 5.4 | \$4.9 | \$10.3 |
| Restricted net assets | 4.3 | 0.0 | 4.3 |
| Unrestricted net assets | <u>2.6</u> | <u>1.5</u> | <u>4.1</u> |
| TOTAL NET ASSETS | <u>\$12.3</u> | <u>\$6.4</u> | <u>\$18.7</u> |

Town of Smyrna, Delaware

Management's Discussion and Analysis (Continued)

The Town's changes in net assets were as follows (presented in million of dollars):

| | <u>Governmental Activities</u> | <u>Business- Type Activities</u> | <u>Total</u> |
|---|------------------------------------|--|---------------|
| REVENUES | | | |
| Program revenues | | | |
| Charges for services | \$ 1.8 | \$10.4 | \$12.2 |
| Operating grants and contributions | 0.3 | 0.0 | 0.3 |
| Capital grants and contributions | 0.3 | 0.0 | 0.3 |
| General revenue | | | |
| Real estate taxes | 0.8 | 0.0 | 0.8 |
| Real estate transfer taxes | 1.5 | 0.0 | 1.5 |
| Other miscellaneous and interest | <u>0.2</u> | <u>0.1</u> | <u>0.3</u> |
| Total revenues | 4.9 | 10.5 | 15.4 |
| EXPENSES | | | |
| General government | 1.6 | 0.0 | 1.6 |
| Public safety | 2.7 | 0.0 | 2.7 |
| Public works | 1.2 | 0.0 | 1.2 |
| Planning and inspection | 0.7 | 0.0 | 0.7 |
| Library | 0.2 | 0.0 | 0.2 |
| Culture and recreation | 0.2 | 0.0 | 0.2 |
| Electric | 0.0 | 5.0 | 5.0 |
| Water and sewer | <u>0.0</u> | <u>1.6</u> | <u>1.6</u> |
| Total expenses | <u>6.6</u> | <u>6.6</u> | <u>13.2</u> |
| Increase (decrease) in net assets before transfer | (1.7) | 3.9 | 2.2 |
| Transfers | <u>4.7</u> | <u>(4.7)</u> | <u>0.0</u> |
| Change in net assets | 3.0 | (0.8) | 2.2 |
| NET ASSETS - BEGINNING OF YEAR | <u>9.3</u> | <u>7.2</u> | <u>16.5</u> |
| NET ASSETS - END OF YEAR | <u>\$12.3</u> | <u>\$ 6.4</u> | <u>\$18.7</u> |

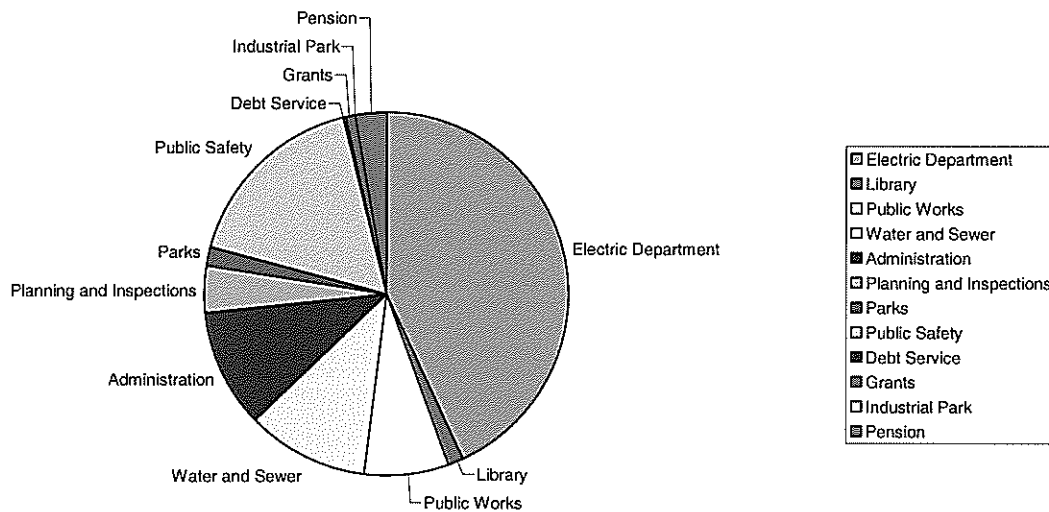
The Town's net assets increased by \$2.2 million during the fiscal year 2004 for various reasons. This is the first year using GASB 34 so the Town had to restate their statement of activities and statement of net assets. The Town experienced higher than expected real estate transfer taxes during 2004. The Town has been creating reserve accounts to pay for necessary capital infrastructure such as the electric sub-station.

Town of Smyrna, Delaware

Management's Discussion and Analysis (Continued)

The following charts illustrate the costs of government activities by department and the Town's revenue sources. The electric and water and sewer funds produce the majority of the revenues for the Town. Public safety, administration, and public works represent a major portion of the governmental expenditures.

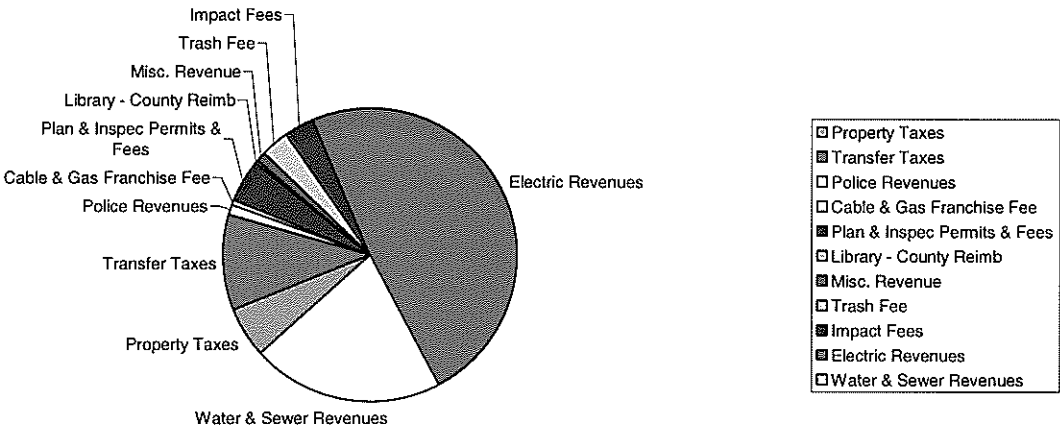
2004 Town of Smyrna Expenditures



Town of Smyrna, Delaware

Management's Discussion and Analysis (Continued)

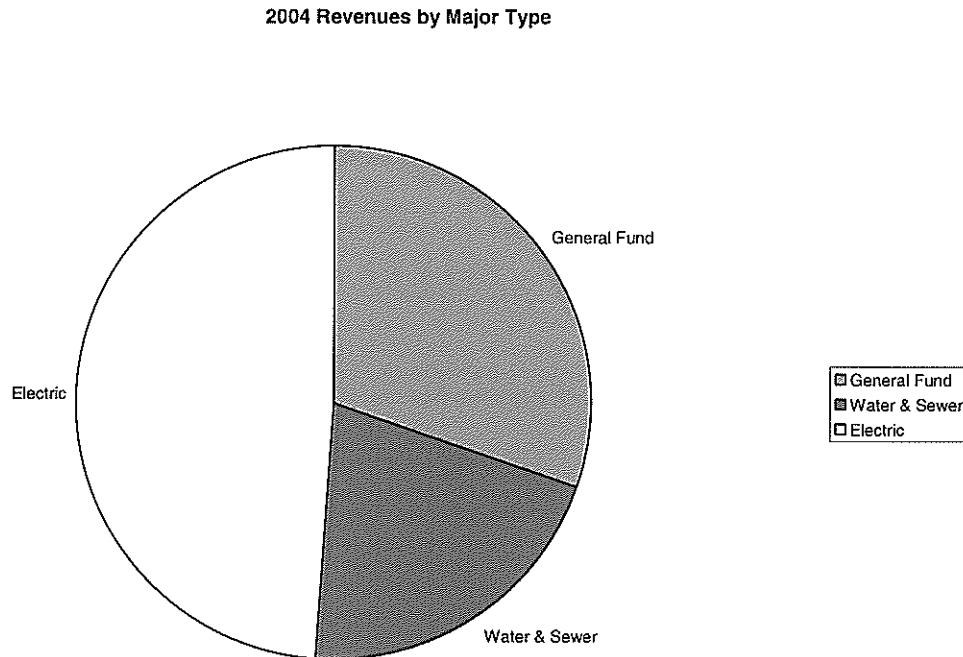
2004 Town of Smyrna Revenues



Town of Smyrna, Delaware

Management's Discussion and Analysis (Continued)

The following chart divides the Town's revenue by the major sources: general fund, electric, and water and sewer.



The above chart illustrates that the Town obtains most of its revenues from the proprietary funds.

Financial Analysis of the Town's Funds

Governmental Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The general fund is the primary operating fund of the Town.

The combined fund balances of the Town's governmental funds at December 31, 2004 were \$7.3 million. Of the \$7.3 million fund balance, \$4.3 million is reserved for specific purposes such as capital projects, municipal street aid, and grants. A portion of the \$2.9 million unreserved funds has been set aside in the Rainy Day fund.

Town of Smyrna, Delaware

Management's Discussion and Analysis (Continued)

Proprietary Funds

The Town's propriety funds provide the same type of financial information found in the entity-wide financial statements, but in more detail.

The electric and water and sewer proprietary funds reported net assets of \$3.8 and \$2.6 million, respectively. The unrestricted net assets of the electric and water and sewer funds reported balances of \$1.2 and \$0.3 million, respectively. A portion of the \$1.5 million unrestricted proprietary fund balance has been set aside in the Rainy Day fund.

General Fund Budgetary Highlights

Actual revenue exceeded the amount of budgeted revenue by \$1 million. Real estate transfer taxes accounted for the majority of the additional revenue (\$0.9 million). Actual expenditures exceeded budgeted expenditures by \$0.7 million. General government (Administration) and public safety accounted for \$0.4 million of the additional spending. Additional expenditures over budgeted amounts were necessary for contractual services and catching up on historical under-funding of the pension plans.

Capital Asset and Debt Administration

Capital Asset - As of December 31, 2004, the Town had invested \$5.4 million and \$6.7 million in capital assets in the governmental and proprietary funds, respectively. The net assets include items such as roads, land, buildings, infrastructure, machinery, and equipment.

The following table illustrates the governmental and business-type activities capital assets (in millions):

| | <u>Governmental Activities</u> | <u>Business- Type Activities</u> | <u>Total</u> |
|--------------------------------|------------------------------------|--|---------------|
| NET ASSETS | | | |
| Land | \$ 0.8 | \$ 0.1 | \$ 0.9 |
| Construction-in-progress | 0.3 | 0.4 | 0.7 |
| Land improvements | 0.5 | 0.0 | 0.5 |
| Buildings | 2.3 | 1.1 | 3.4 |
| Infrastructure | 4.3 | 7.0 | 11.3 |
| Machinery and equipment | 2.2 | 1.0 | 3.2 |
| Less: accumulated depreciation | <u>(5.0)</u> | <u>(2.9)</u> | <u>(7.9)</u> |
| TOTAL CAPITAL ASSETS | <u>\$ 5.4</u> | <u>\$ 6.7</u> | <u>\$12.1</u> |

Town of Smyrna, Delaware

Management's Discussion and Analysis (Continued)

Long-Term Debt - The Town had two debt instruments at December 31, 2004. A \$1.7 million loan from the state drinking water revolving fund and \$75,000 from the Delaware Economic Development Office. The balance remaining at the end of December 31, 2004 for the two loans was \$1,728,212. Both loans are being accounted for in the business-type activities since they are related to water/sewer projects.

The Town charter limits the total outstanding indebtedness of the Town of Smyrna to 12% of the assessed valuation of all real property within the corporate limits of the Town.

Economic Factors and Next Year's Budgets and Rates

The Town reviews its revenues annually and adjusts its revenue forecast accordingly. Impact fees are adjusted each year to the October Consumer Price Index with Council approval with the new rates to be effective in January.

A property revaluation will be conducted in time for the 2006 property tax billing in May of 2006.

Sewer charges in 2005 have been adjusted for changes made by Kent County, Delaware. Trash charges were adjusted in 2005 for increased costs imposed by the Delaware Solid Waste Authority. Health insurance has increased by 14% from 2003 to 2004 and an additional 14% from 2004 to 2005.

Requests for Additional Information

This financial report is designed to provide a general overview of the Town's finances for all interested parties. It is intended to be the Town's accountability for the money the Town receives. If you have any questions or require additional information, please contact Gary Stulir, Manager of Accounting and Business Services at (302) 653-9231.

**Town of Smyrna
27 S. Market Street Plaza
P.O. Box 307
Smyrna DE 19977**

Independent Auditors' Report

To the Town Council
Town of Smyrna, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Smyrna (the Town), as of and for the year ended December 31, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Town has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended and interpreted, as of January 1, 2004.

To the Town Council

The management's discussion and analysis and schedule of funding progress are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Santor CPA Group". The signature is fluid and cursive, with a long horizontal line extending from the end of the word "Group".

November 16, 2005
Newark, Delaware

Town of Smyrna, Delaware

Statement of Net Assets

December 31, 2004

Town of Smyrna, Delaware

Statement of Net Assets

December 31, 2004

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|-----------------------------|
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | \$ 540,214 | \$ 560,580 | \$ 1,100,794 |
| Accrued salaries and benefits | 21,186 | 3,198 | 24,384 |
| Developer deposits | 24,000 | 147,764 | 171,764 |
| Accrued compensated absences | 175,402 | 50,994 | 226,396 |
| Loans payable | - | 73,073 | 73,073 |
| Current liabilities payable from restricted assets | | | |
| Meter deposits | <u>-</u> | <u>276,263</u> | <u>276,263</u> |
| Total current liabilities | 760,802 | 1,111,872 | 1,872,674 |
| Noncurrent liabilities | | | |
| Accrued compensated absences | 334,043 | 77,937 | 411,980 |
| Loans payable | <u>-</u> | <u>1,655,139</u> | <u>1,655,139</u> |
| Total noncurrent liabilities | <u>334,043</u> | <u>1,733,076</u> | <u>2,067,119</u> |
| Total liabilities | 1,094,845 | 2,844,948 | 3,939,793 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 5,423,723 | 4,925,354 | 10,349,077 |
| Unrestricted | 2,615,541 | 1,488,895 | 4,104,436 |
| Restricted for police | 48,312 | - | 48,312 |
| Restricted for public works | 554,879 | - | 554,879 |
| Restricted for capital projects | <u>3,694,707</u> | <u>-</u> | <u>3,694,707</u> |
| Total net assets | <u>12,337,162</u> | <u>6,414,249</u> | <u>18,751,411</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 13,432,007</u></u> | <u><u>\$ 9,259,197</u></u> | <u><u>\$ 22,691,204</u></u> |

Town of Smyrna, Delaware

Statement of Activities

For the Year Ended December 31, 2004

| Functions/Programs | Program Revenues | | | Net (Expenses) Revenue and Changes in Net Assets | | |
|--------------------------------|------------------|----------------------|------------------------------------|--|-------------------------|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Primary Government Business-Type Activities |
| PRIMARY GOVERNMENT | | | | | | |
| Governmental activities | | | | | | |
| General government | \$ 1,646,354 | \$ 578,420 | \$ - | \$ 165,300 | \$ (902,634) | \$ (902,634) |
| Public safety | 2,659,479 | 96,920 | 210,390 | - | (2,352,169) | (2,352,169) |
| Public works | 1,233,417 | 590,672 | 88,997 | - | (553,748) | (553,748) |
| Planning and inspection | 652,145 | 523,549 | - | - | (128,596) | (128,596) |
| Library | 211,177 | 29,702 | 45,287 | 101,937 | (34,251) | (34,251) |
| Culture and recreation | 222,144 | - | - | - | (222,144) | (222,144) |
| Total governmental activities | 6,624,716 | 1,819,263 | 344,674 | 267,237 | (4,193,542) | (4,193,542) |
| Business-type activities | | | | | | |
| Electric | 5,094,465 | 7,853,638 | - | - | - | 2,759,173 |
| Water and sewer | 1,616,730 | 2,542,453 | - | - | - | 925,723 |
| Total business-type activities | 6,711,195 | 10,396,091 | - | - | - | 3,684,896 |
| Total primary government | \$ 13,335,911 | \$ 12,215,354 | \$ 344,674 | \$ 267,237 | (4,193,542) | (508,646) |

Continued...

Town of Smyrna, Delaware

Statement of Activities (Continued)

For the Year Ended December 31, 2004

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenue and Changes in Net Assets | | |
|--------------------------------------|----------|----------------------|------------------------------------|----------------------------------|--|---|---------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Primary Government Business-Type Activities | Total |
| PRIMARY GOVERNMENT (CONTINUED) | | | | | | | |
| General revenues | | | | | \$ 829,917 | \$ - | \$ 829,917 |
| Real estate taxes | | | | | 1,577,460 | - | 1,577,460 |
| Real estate transfer taxes | | | | | 93,591 | - | 93,591 |
| Utility franchise fees | | | | | 48,845 | 47,515 | 96,360 |
| Investment earnings | | | | | 28,839 | - | 28,839 |
| Miscellaneous | | | | | 93,560 | - | 93,560 |
| Gain on sale of capital assets | | | | | 4,567,923 | (4,567,923) | - |
| Transfers | | | | | | | |
| Total general revenues and transfers | | | | | 7,240,135 | (4,520,408) | 2,719,727 |
| CHANGE IN NET ASSETS | | | | | | | |
| | | | | | 3,046,593 | (835,512) | 2,211,081 |
| NET ASSETS - BEGINNING OF YEAR | | | | | 9,290,569 | 7,249,761 | 16,540,330 |
| NET ASSETS - END OF YEAR | | | | | \$ 12,337,162 | \$ 6,414,249 | \$ 18,751,411 |

See accompanying notes to financial statements.

Town of Smyrna, Delaware

Balance Sheet - Governmental Funds

December 31, 2004

Assets

| | General | Capital Reserve | Nonmajor Governmental Funds | Total |
|----------------------------|---------------------|---------------------|-----------------------------------|---------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 73,467 | \$ 1,075 | \$ 48,312 | \$ 122,854 |
| Investments | 2,728,262 | 3,954,298 | 554,879 | 7,237,439 |
| Taxes receivable | 184,566 | - | - | 184,566 |
| Accounts receivable | 133,518 | - | - | 133,518 |
| Interest receivable | - | 7,184 | - | 7,184 |
| Due from other governments | 159,371 | - | - | 159,371 |
| Prepaid items | 118,272 | - | - | 118,272 |
| Land held for resale, net | 45,080 | - | - | 45,080 |
| TOTAL ASSETS | \$ 3,442,536 | \$ 3,962,557 | \$ 603,191 | \$ 8,008,284 |

Liabilities and Fund Balances

| | | | | |
|--|---------------------|---------------------|-------------------|---------------------|
| LIABILITIES | | | | |
| Accounts payable | \$ 272,364 | \$ 267,850 | \$ - | \$ 540,214 |
| Accrued salaries | 21,186 | - | - | 21,186 |
| Deferred revenue | 69,091 | - | - | 69,091 |
| Developer deposits | 24,000 | - | - | 24,000 |
| Accrued compensated absences | 28,184 | - | - | 28,184 |
| Total liabilities | 414,825 | 267,850 | - | 682,675 |
| FUND BALANCES | | | | |
| Unreserved | 2,982,631 | - | - | 2,982,631 |
| Reserved for police | - | - | 554,879 | 554,879 |
| Reserved for public works | - | - | 48,312 | 48,312 |
| Reserved for capital projects | - | 3,694,707 | - | 3,694,707 |
| Fund balance - reserved for land for resale | 45,080 | - | - | 45,080 |
| Total fund balances | 3,027,711 | 3,694,707 | 603,191 | 7,325,609 |
| TOTAL LIABILITIES AND AND FUND BALANCES | \$ 3,442,536 | \$ 3,962,557 | \$ 603,191 | \$ 8,008,284 |

See accompanying notes to financial statements.

Town of Smyrna, Delaware

**Reconciliation of Governmental Funds Balance Sheet to
Statement of Net Assets - Governmental Funds**

For the Year Ended December 31, 2004

| | |
|---|----------------------|
| TOTAL FUND BALANCE - GOVERNMENTAL FUNDS | \$ 7,325,609 |
| Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. | 5,423,723 |
| Town assets that are not available to pay for current period expenditures, and therefore, are deferred in the funds. | 69,091 |
| Some liabilities are not due and payable in the current period and not reported in the funds. | - |
| Compensated absences | <u>(481,261)</u> |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 12,337,162</u> |

See accompanying notes to financial statements.

Town of Smyrna, Delaware

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

For the Year Ended December 31, 2004

| | General | Capital Reserve | Nonmajor Governmental Funds | Total |
|--|-------------|--------------------|-----------------------------------|-------------|
| REVENUES | | | | |
| Taxes | | | | |
| Property taxes | \$ 805,169 | \$ - | \$ - | \$ 805,169 |
| Transfer taxes | 1,577,460 | - | - | 1,577,460 |
| Special assessment | | | | |
| Impact fees | 590,672 | - | - | 590,672 |
| Charges for services | 566,667 | - | - | 566,667 |
| Intergovernmental | 340,956 | - | 129,072 | 470,028 |
| Licenses, fees, and permits | 527,287 | - | - | 527,287 |
| Fines and forfeits | 82,435 | - | - | 82,435 |
| Rental | 22,500 | - | - | 22,500 |
| Utility franchise fees | 93,591 | - | - | 93,591 |
| Investment earnings | 13,324 | 27,717 | 7,803 | 48,844 |
| Miscellaneous | 28,839 | - | - | 28,839 |
| | | | | |
| Total revenues | 4,648,900 | 27,717 | 136,875 | 4,813,492 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 1,483,809 | - | - | 1,483,809 |
| Public safety | 2,431,031 | - | 55,586 | 2,486,617 |
| Public works | 965,535 | - | 55,867 | 1,021,402 |
| Planning and inspection | 500,380 | - | - | 500,380 |
| Library | 181,164 | - | - | 181,164 |
| Culture and recreation | 206,747 | - | - | 206,747 |
| Capital outlay | 337,744 | 1,188,751 | - | 1,526,495 |
| | | | | |
| Total expenditures | 6,106,410 | 1,188,751 | 111,453 | 7,406,614 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (1,457,510) | (1,161,034) | 25,422 | (2,593,122) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from the sale of capital assets | 93,560 | - | - | 93,560 |
| Transfers in | 4,567,923 | 1,101,678 | - | 5,669,601 |
| Transfers out | (1,101,678) | - | - | (1,101,678) |
| | | | | |
| Total other financing sources (uses) | 3,559,805 | 1,101,678 | - | 4,661,483 |
| NET CHANGES IN FUND BALANCES | 2,102,295 | (59,356) | 25,422 | 2,068,361 |

Continued...

Town of Smyrna, Delaware

**Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds (Continued)**

For the Year Ended December 31, 2004

| | <u>General</u> | <u>Capital Reserve</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|--|---------------------|----------------------------|--|---------------------|
| FUND BALANCES - BEGINNING OF YEAR | \$ 763,258 | \$ 3,754,063 | \$ 577,769 | \$ 5,095,090 |
| PRIOR PERIOD ADJUSTMENT | <u>162,158</u> | <u>-</u> | <u>-</u> | <u>162,158</u> |
| FUND BALANCES - BEGINNING OF YEAR, RESTATED | <u>925,416</u> | <u>3,754,063</u> | <u>577,769</u> | <u>5,257,248</u> |
| FUND BALANCES - END OF YEAR | <u>\$ 3,027,711</u> | <u>\$ 3,694,707</u> | <u>\$ 603,191</u> | <u>\$ 7,325,609</u> |

See accompanying notes to financial statements.

Town of Smyrna, Delaware

**Reconciliation of Statement of Revenues, Expenditures,
and Changes in Fund Balances - Governmental Funds**

For the Year Ended December 31, 2004

| | |
|---|---------------------|
| NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ 2,068,361 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$1,228,601) exceeded depreciation (\$380,788) in the current period. | 847,813 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | - |
| Property taxes | 24,748 |
| Intergovernmental | 6,285 |
| Donated capital assets | 165,300 |
| Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds. | - |
| Compensated absences | <u>(65,914)</u> |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 3,046,593</u> |

See accompanying notes to financial statements.

Town of Smyrna, Delaware
Budgetary Comparison Statement -
General Fund

December 31, 2004

| | Original and Final Appropriated Budget | Actual Amounts (Budgetary Basis) | Variance Positive (Negative) |
|--|---|--|------------------------------------|
| REVENUES | | | |
| Taxes | | | |
| Property taxes | \$ 1,000,000 | \$ 805,169 | \$ (194,831) |
| Transfer taxes | 550,000 | 1,577,460 | 1,027,460 |
| Special assessment | | | |
| Impact fees | 560,000 | 590,672 | 30,672 |
| Charges for services | 473,000 | 566,667 | 93,667 |
| Intergovernmental | 24,000 | 340,956 | 316,956 |
| Licenses and permits | 520,000 | 527,287 | 7,287 |
| Fines and forfeits | 141,000 | 82,435 | (58,565) |
| Rental | - | 22,500 | 22,500 |
| Utility franchise fees | 115,000 | 93,591 | (21,409) |
| Investment earnings | 85,000 | 13,324 | (71,676) |
| Miscellaneous | 5,500 | 28,839 | 23,339 |
| Total revenues | 3,473,500 | 4,648,900 | 1,175,400 |
| EXPENDITURES | | | |
| Current | | | |
| General government | 1,312,256 | 1,483,809 | (171,553) |
| Public safety | 2,157,451 | 2,431,031 | (273,580) |
| Public works | 1,017,969 | 965,535 | 52,434 |
| Planning and inspection | 509,427 | 500,380 | 9,047 |
| Library | 170,769 | 181,164 | (10,395) |
| Culture and recreation | 229,495 | 206,747 | 22,748 |
| Capital outlay | 314,475 | 337,744 | (23,269) |
| Total expenditures | 5,711,842 | 6,106,410 | (394,568) |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (2,238,342) | (1,457,510) | 780,832 |

Continued...

Town of Smyrna, Delaware

**Budgetary Comparison Statement -
General Fund (Continued)**

December 31, 2004

| | Original and Final Appropriated Budget | Actual Amounts (Budgetary Basis) | Variance Positive (Negative) |
|--|---|--|------------------------------------|
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from the sale of capital assets | \$ - | \$ 93,560 | \$ 93,560 |
| Transfers in | - | 4,567,923 | 4,567,923 |
| Transfers out | - | (1,101,678) | (1,101,678) |
| | <u>-</u> | <u>(1,101,678)</u> | <u>(1,101,678)</u> |
| Total other financing sources (uses) | <u>-</u> | <u>3,559,805</u> | <u>3,559,805</u> |
| NET CHANGES IN FUND BALANCES | (2,238,342) | 2,102,295 | 4,340,637 |
| FUND BALANCES - BEGINNING OF YEAR | 763,258 | 763,258 | - |
| PRIOR PERIOD ADJUSTMENT | <u>162,158</u> | <u>162,158</u> | <u>-</u> |
| FUND BALANCE - BEGINNING OF YEAR, RESTATED | <u>925,416</u> | <u>925,416</u> | <u>-</u> |
| FUND BALANCE - END OF YEAR | <u>\$ (1,312,926)</u> | <u>\$ 3,027,711</u> | <u>\$ 4,340,637</u> |

See accompanying notes to financial statements.

Town of Smyrna, Delaware

**Statement of Net Assets -
Proprietary Funds**

December 31, 2004

| | <u>Electric Fund</u> | <u>Water and Sewer Fund</u> | <u>Total</u> |
|-----------------------------------|----------------------------|-------------------------------------|----------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 481,016 | \$ 103,561 | \$ 584,577 |
| Investments | 126,965 | - | 126,965 |
| Accounts receivable | 807,115 | 273,045 | 1,080,160 |
| Inventory | 455,911 | 81,755 | 537,666 |
| Restricted assets | | | |
| Meter deposits | <u>276,263</u> | <u>-</u> | <u>276,263</u> |
| Total current assets | 2,147,270 | 458,361 | 2,605,631 |
| Noncurrent assets | | | |
| Capital assets, net | <u>2,602,476</u> | <u>4,051,090</u> | <u>6,653,566</u> |
| TOTAL ASSETS | <u><u>\$ 4,749,746</u></u> | <u><u>\$ 4,509,451</u></u> | <u><u>\$ 9,259,197</u></u> |
| LIABILITIES AND NET ASSETS | | | |
| Current liabilities | | | |
| Accounts payable | \$ 479,151 | \$ 81,429 | \$ 560,580 |
| Accrued salaries and benefits | 1,865 | 1,333 | 3,198 |
| Developer deposits | 126,965 | 20,799 | 147,764 |
| Accrued compensated absences | 30,939 | 20,055 | 50,994 |
| Loans payable | - | 73,073 | 73,073 |
| Current liabilities payable from | | | |
| Restricted assets | - | - | |
| Meter deposits | <u>276,263</u> | <u>-</u> | <u>276,263</u> |
| Total current liabilities | 915,183 | 196,689 | 1,111,872 |

Continued...

Town of Smyrna, Delaware

**Statement of Net Assets -
Proprietary Funds (Continued)**

December 31, 2004

| | <u>Electric Fund</u> | <u>Water and Sewer Fund</u> | <u>Total</u> |
|---|----------------------------|-------------------------------------|----------------------------|
| Noncurrent liabilities | | | |
| Accrued compensated absences | \$ 19,312 | \$ 58,625 | \$ 77,937 |
| Loans payable | - | 1,655,139 | 1,655,139 |
| Total noncurrent liabilities | <u>19,312</u> | <u>1,713,764</u> | <u>1,733,076</u> |
| Total liabilities | <u>934,495</u> | <u>1,910,453</u> | <u>2,844,948</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 2,602,476 | 2,322,878 | 4,925,354 |
| Unrestricted | <u>1,212,775</u> | <u>276,120</u> | <u>1,488,895</u> |
| Total net assets | <u>3,815,251</u> | <u>2,598,998</u> | <u>6,414,249</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 4,749,746</u></u> | <u><u>\$ 4,509,451</u></u> | <u><u>\$ 9,259,197</u></u> |

See accompanying notes to financial statements.

Town of Smyrna, Delaware

**Statement of Revenues, Expenses, and Changes
in Net Assets - Proprietary Funds**

December 31, 2004

| | <u>Electric Fund</u> | <u>Water and Sewer Fund</u> | <u>Total</u> |
|--|--------------------------|-------------------------------------|------------------|
| OPERATING REVENUES | | | |
| Charges for service | \$ 7,495,175 | \$ 2,459,571 | \$ 9,954,746 |
| Other operating revenue | <u>48,575</u> | <u>82,882</u> | <u>131,457</u> |
| Total operating revenues | 7,543,750 | 2,542,453 | 10,086,203 |
| OPERATING EXPENSES | | | |
| Electric purchased | 4,181,563 | - | 4,181,563 |
| Sewer charges | - | 871,430 | 871,430 |
| System maintenance | 179,474 | 141,227 | 320,701 |
| Salaries and wages | 304,170 | 213,132 | 517,302 |
| Employee benefits | 140,573 | 100,482 | 241,055 |
| Depreciation | 140,821 | 138,676 | 279,497 |
| Supplies and maintenance | 28,014 | 13,079 | 41,093 |
| Truck and vehicles | 40,068 | 11,926 | 51,994 |
| Insurance | 42,388 | 74,240 | 116,628 |
| Administration expenses | 25,740 | 23,623 | 49,363 |
| Interest expense | - | 23,023 | 23,023 |
| Minor capital additions | <u>11,654</u> | <u>5,892</u> | <u>17,546</u> |
| Total operating expenses | <u>5,094,465</u> | <u>1,616,730</u> | <u>6,711,195</u> |
| OPERATING INCOME | 2,449,285 | 925,723 | 3,375,008 |
| NONOPERATING REVENUE | | | |
| Interest revenue | <u>35,636</u> | <u>11,879</u> | <u>47,515</u> |
| INCOME BEFORE CONTRIBUTIONS AND TRANSFERS | <u>2,484,921</u> | <u>937,602</u> | <u>3,422,523</u> |

Continued...

Town of Smyrna, Delaware

**Statement of Revenues, Expenses, and Changes
in Net Assets - Proprietary Funds (Continued)**

December 31, 2004

| | <u>Electric Fund</u> | <u>Water and Sewer Fund</u> | <u>Total</u> |
|---|----------------------------|-------------------------------------|----------------------------|
| CONTRIBUTIONS AND TRANSFERS | | | |
| Developer contributions | \$ 309,888 | \$ - | \$ 309,888 |
| Transfers out | <u>(1,757,108)</u> | <u>(2,810,815)</u> | <u>(4,567,923)</u> |
| Total contributions and transfers | <u>(1,447,220)</u> | <u>(2,810,815)</u> | <u>(4,258,035)</u> |
| CHANGE IN NET ASSETS | 1,037,701 | (1,873,213) | (835,512) |
| NET ASSETS - BEGINNING OF YEAR | 2,895,442 | 2,877,967 | 5,773,409 |
| PRIOR PERIOD ADJUSTMENT | <u>(117,892)</u> | <u>1,594,244</u> | <u>1,476,352</u> |
| NET ASSETS - BEGINNING OF YEAR, RESTATED | <u>2,777,550</u> | <u>4,472,211</u> | <u>7,249,761</u> |
| NET ASSETS - END OF YEAR | <u><u>\$ 3,815,251</u></u> | <u><u>\$ 2,598,998</u></u> | <u><u>\$ 6,414,249</u></u> |

See accompanying notes to financial statements.

Town of Smyrna, Delaware

**Statement of Cash Flows -
Proprietary Funds**

For the Year Ended December 31, 2004

| | Electric Fund | Water and Sewer Fund | Total |
|---|------------------|----------------------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts | \$ 7,362,592 | \$ 2,559,408 | \$ 9,922,000 |
| Payments to suppliers | (4,602,071) | (1,242,687) | (5,844,758) |
| Payments to employees | (442,554) | (310,302) | (752,856) |
| Interest paid | - | (23,023) | (23,023) |
| | <hr/> | <hr/> | <hr/> |
| Net cash flows provided by operating activities | 2,317,967 | 983,396 | 3,301,363 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY | | | |
| Transfers out | (1,757,108) | (2,810,815) | (4,567,923) |
| | <hr/> | <hr/> | <hr/> |
| Net cash flows used in noncapital financing activity | (1,757,108) | (2,810,815) | (4,567,923) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Proceeds from loan payable | - | 1,692,841 | 1,692,841 |
| Repayment of loans payable | - | (39,629) | (39,629) |
| Developer contributions and repayments of escrows, net | 277,378 | 20,798 | 298,176 |
| Acquisition and construction of capital assets | (900,062) | (240,052) | (1,140,114) |
| | <hr/> | <hr/> | <hr/> |
| Net cash flows provided by (used in) capital and related financing activities | (622,684) | 1,433,958 | 811,274 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of investments | (126,965) | - | (126,965) |
| Interest and investment earnings | 35,636 | 11,879 | 47,515 |
| Meter deposit payments | 54,435 | - | 54,435 |
| Meter deposit repayments | (54,213) | - | (54,213) |
| | <hr/> | <hr/> | <hr/> |
| Net cash flows provided by (used in) investing activities | (91,107) | 11,879 | (79,228) |
| Net decrease in cash and cash equivalents | (152,932) | (381,582) | (534,514) |
| CASH - BEGINNING OF YEAR | <hr/> | <hr/> | <hr/> |
| | 633,948 | 485,143 | 1,119,091 |
| CASH - END OF YEAR | <hr/> | <hr/> | <hr/> |
| | \$ 481,016 | \$ 103,561 | \$ 584,577 |

Continued...

Town of Smyrna, Delaware

**Statement of Cash Flows -
Proprietary Funds (Continued)**

For the Year Ended December 31, 2004

| | Electric Fund | Water and Sewer Fund | Total |
|---|---------------------|----------------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Operating income | \$ 2,449,285 | \$ 925,723 | \$ 3,375,008 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | | |
| Depreciation | 140,821 | 138,676 | 279,497 |
| Changes in assets and liabilities | | | |
| (Increase) decrease in accounts receivable, net | (181,158) | 16,955 | (164,203) |
| (Increase) decrease in inventory | (58,786) | 30,512 | (28,274) |
| Decrease in accounts payable | (34,384) | (131,784) | (166,168) |
| Increase in accrued salaries and benefits | 1,865 | 1,333 | 3,198 |
| Increase in compensated absences | 324 | 1,981 | 2,305 |
| Net cash flows provided by operating activities | <u>\$ 2,317,967</u> | <u>\$ 983,396</u> | <u>\$ 3,301,363</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION | | | |
| Capital assets purchased in accounts payable | <u>\$ 42,156</u> | <u>\$ 12,576</u> | <u>\$ 54,732</u> |

See accompanying notes to financial statements.

Town of Smyrna, Delaware

**Statement of Net Assets -
Fiduciary Funds**

December 31, 2004

| | <u>Police Pension Trust Fund</u> | <u>Employee Pension Trust Fund</u> | <u>Total</u> |
|--|--|--|-------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 365,906 | \$ 54,716 | \$ 420,622 |
| Investments at fair value | 795,923 | 886,281 | 1,682,204 |
| Insurance contracts | <u>1,085,899</u> | <u>1,238,443</u> | <u>2,324,342</u> |
| TOTAL ASSETS | <u>\$ 2,247,728</u> | <u>\$ 2,179,440</u> | <u>\$ 4,427,168</u> |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS | <u>\$ 2,247,728</u> | <u>\$ 2,179,440</u> | <u>\$ 4,427,168</u> |

See accompanying notes to financial statements.

Town of Smyrna, Delaware

**Statement of Changes in Net Assets -
Fiduciary Funds**

For the Year Ended December 31, 2004

| | <u>Police Pension Trust Fund</u> | <u>Employee Pension Trust Fund</u> | <u>Total</u> |
|---|--|--|----------------------------|
| ADDITIONS | | | |
| Contributions | | | |
| Employer contribution | \$ 297,766 | \$ 288,522 | \$ 586,288 |
| State aid - police | 64,542 | - | 64,542 |
| | <u>362,308</u> | <u>288,522</u> | <u>650,830</u> |
| Total contributions | | | |
| Investment earnings | | | |
| Interest and dividends | 84,525 | 90,773 | 175,298 |
| Realized gain (loss) on sale of investments | 33,650 | (20,655) | 12,995 |
| Net increase in fair value of investments | 61,999 | 98,901 | 160,900 |
| | <u>180,174</u> | <u>169,019</u> | <u>349,193</u> |
| Total investment earnings | | | |
| Total additions | 542,482 | 457,541 | 1,000,023 |
| DEDUCTIONS | | | |
| Benefits paid | 56,610 | 57,886 | 114,496 |
| Administrative expenses | 23,111 | 21,884 | 44,995 |
| | <u>79,721</u> | <u>79,770</u> | <u>159,491</u> |
| Total deductions | | | |
| CHANGE IN NET ASSETS | 462,761 | 377,771 | 840,532 |
| NET ASSETS - BEGINNING OF YEAR | <u>1,784,967</u> | <u>1,801,669</u> | <u>3,586,636</u> |
| NET ASSETS - END OF YEAR | <u><u>\$ 2,247,728</u></u> | <u><u>\$ 2,179,440</u></u> | <u><u>\$ 4,427,168</u></u> |

See accompanying notes to financial statements.

Town of Smyrna, Delaware

Notes to Financial Statements

Note A - Summary of Significant Accounting Policies

The Town of Smyrna, Delaware (the Town) complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note. For the fiscal year ended December 31, 2004, the Town implemented the new financial reporting requirements of GASB Statements No. 34, as amended, and No. 38, and GASB Interpretation No. 6. As a result, an entirely new financial presentation format and new note disclosures have been implemented.

1. Financial Reporting Entity

The Town was incorporated in 1817 under the provisions of the State of Delaware. The Town operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public works, utilities, culture and recreation, planning and zoning, and general government.

The GASB established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. The criteria used in determining whether such organizations should be included in the Town's financial reporting entity are financial interdependences, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service, and special financing relationships.

The Town has determined that no other outside agency meets the above criteria, and therefore, no other agency has been included as a component unit in the Town's financial statements. In addition, the Town is not aware of any entity that would exercise such oversight that would result in the Town being considered a component unit of the entity.

2. Entity-Wide and Fund Financial Statements

The entity-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Town. Governmental activities that normally are supported by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note A - Summary of Significant Accounting Policies (Continued)

2. Entity-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the last are excluded from the entity-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds. In addition, the fund financial statements present fiduciary funds by fund type.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The entity-wide financial statements are reported using the economic resources' measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items (nonexchange transactions) are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

The entity-wide financial statements report net assets in one of three components. Invested in net assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing, or improving those assets. Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note A - Summary of Significant Accounting Policies (Continued)

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net assets arising from special revenue and capital funds. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

The government fund financial statements are reported using the current financial resources' measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific Town expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned. Other revenues, including charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditures are recorded when the related fund liability is incurred (upon receipt of goods or services), except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets' acquisitions are reported as expenditures in governmental funds. Long-term debt issues and acquisitions under capital leases are reported as other financing sources.

Governmental Funds

The Town reports the following major governmental funds:

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note A - Summary of Significant Accounting Policies (Continued)

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

General Fund - This fund is used to account for the general operating activities of the Town. General government, public safety, public works, culture and recreation, and planning and zoning are financed through this fund with receipts from general property taxes, transfer taxes, licenses and permits, investment interest, fines, charges for current services, intergovernmental, and other revenue.

Capital Reserve Fund - This fund is used to account for the design, construction and improvement of Town buildings, land improvements, and the purchase and replacement of vehicles, machinery, and equipment.

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods or services in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Town's proprietary funds are electric and water and sewer charges. Operating expenses for the Town's proprietary funds include salaries, employee benefits, production costs, supplies, and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

Electric Fund - Used to account for the operation of an electric distribution system.

Water and Sewer Fund - Used to account for the operation of a water supply and sewage collection system.

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note A - Summary of Significant Accounting Policies (Continued)

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Fiduciary Funds

Fiduciary funds account for assets held by the Town as a trustee for individuals, private organizations, and/or governmental units and are, therefore, not available to support the Town's operations. The measurement focus and basis of accounting for fiduciary funds is the same as for proprietary funds.

The Town also reports the following fiduciary fund type:

Pension Trust Funds - These funds are used to account for the assets held by the pension program in a trustee capacity for the employees of the Town. The pension program, which is part of the Town's legal entity, is a single-employer defined benefit pension plan that provides benefits to Town employees.

All entity-wide and business-type activities and proprietary funds of the Town follow Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Town also has the option to follow subsequent private-sector guidance for its business-type activities and proprietary funds with certain limitations, but has elected not to do so.

4. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the proprietary funds consider all highly liquid unrestricted investments with an original maturity of three months or less when purchased to be cash equivalents.

5. Allowance For Doubtful Accounts

The Town's water, sewer, and electric utilities experience very small losses from uncollectible accounts. Water and sewer fees constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note A - Summary of Significant Accounting Policies (Continued)

5. Allowance For Doubtful Accounts (Continued)

year. Electric fees do not constitute a lien; however, maintenance of adequate customer deposits, monthly billing, and diligent collection procedures minimize losses from uncollectible accounts. Accordingly, an allowance for doubtful accounts has not been established by the Town for its proprietary funds.

6. Inventories and Prepaid Expenses

Inventories of business-type activities and proprietary fund types are valued at average cost. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

7. Capital Assets

Capital assets, including property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements. The Town has defined capital assets as assets with an initial, individual cost of more than \$5,000; capital projects, inclusive of ancillary costs, in excess of \$100,000; and an estimated useful life in excess of one year. Capital assets may be purchased or constructed and are recorded at cost. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets of the Town are depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

| | |
|-------------------------|---------------|
| Buildings | 50 years |
| Infrastructure | 20 - 50 years |
| Land improvements | 20 - 50 years |
| Machinery and equipment | 5 - 20 years |

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note A - Summary of Significant Accounting Policies (Continued)

8. Compensated Absences

Regular, full-time employees begin to accrue vacation and sick leave when they are hired; however, they are not eligible to use vacation and sick leave until they have completed their first six months of employment. Sick leave is accrued at the rate of 12 days per completed year prorated at the rate of one day for each completed month of service. Employees may accumulate an unlimited number of sick leave days. One-half of the full amount accumulated up to 45 days maximum is paid if termination is through retirement or death. Vacation is accrued for each month of work performed. The accrual rate increases with years of service up to a maximum of 24 days per year for 20 years of service and over. Accrued vacation is paid to the employees upon termination of employment for employees who have completed at least six months of continuous service.

Accumulated vacation and sick leave is accrued when incurred in the entity-wide financial statements and proprietary fund types. A liability is reported in the governmental funds only if it is expendable from available financial resources. Historically, the general fund has been responsible for liquidation of compensated absences associated with governmental fund activities. Compensated absences associated with proprietary funds are liquidated from the fund in which the liability was generated.

At December 31, 2004, accrued compensated absences for governmental activities totaled \$509,445. This total is comprised of accrued vacation leave of \$96,913 and accrued sick leave of \$412,532. In addition, at December 31, 2004, accrued compensated absences in the business-type activities totaled \$128,931. This total is comprised of accrued vacation leave of \$17,653 and accrued sick leave of \$111,278.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The proprietary funds report the same three components of net assets as do the entity-wide financial statements. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first and then unrestricted resources as they are needed.

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note A - Summary of Significant Accounting Policies (Continued)

10. Property Taxes

Property taxes attach as an enforceable lien on property when levied. All liens continue until property taxes are paid in full. Taxes are levied on May 1 and are payable on or before September 30. Taxes paid before May 31 are given a 6% discount. Taxes paid after the payable date are assessed interest at 1½% per month after the due date. The Town bills and collects its own property taxes. Town property tax revenues are recognized on a pro rata basis. Delinquent taxes are considered fully collectible, and therefore, no allowance for uncollectible taxes is provided. The property tax rate for 2004 was 31¢ per \$100 of assessed value.

11. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B - Stewardship, Compliance, and Accountability

1. Budgetary Information

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. Formal budgetary integration is employed as a management control device during the year for the general fund. This budget is adopted on a basis consistent with generally accepted accounting principles.
- b. The Town Council adopts legal annual budgets for the general fund and proprietary funds. The Town Council also adopts legal project length budgets for its capital reserve fund and certain nonmajor governmental funds. Since project periods may differ from the Town's fiscal year, a comparison of budgetary information for the combined capital reserve fund and certain nonmajor governmental funds would not be meaningful and has not been presented in the accompanying financial statements.

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note B - Stewardship, Compliance, and Accountability (Continued)

1. Budgetary Information (Continued)

- c. The Town Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Town Council. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis.
- d. Unused appropriations for all of the above annually budgeted funds lapse at year end.
- e. For 2004, there were no revisions to any legally adopted budgets.

2. Excess of Expenditures Over Appropriations

The general fund incurred expenditures in excess of appropriations in the following functions for the year ended December 31, 2004 as follows:

| | |
|--------------------|-----------|
| General government | \$171,553 |
| Public safety | \$273,580 |
| Library | \$10,395 |
| Capital outlay | \$23,269 |

The more significant of the expenditures in excess of appropriations in the general government and public safety functions were due primarily to additional payments made to the Town's pension plans to compensate for the Town's unfunded accrued pension liability based upon an actuarial valuation of the Town's pension plans, which was not included in the original budget. All excess of expenditures over appropriations were funded by greater than anticipated revenues in the general fund.

Note C - Cash, Cash Equivalents, and Investments

The Town, as a depositor and an investor, generally requires full and continuous collateralization based upon fair value in the form of the following:

- Obligations of or guaranteed by the United States of America; or

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note C - Cash, Cash Equivalents, and Investments (Continued)

- Obligations of the Federal National Mortgage Association, the Federal Home Mortgage Corporation, Public Housing Authority, or any agency or instrumentality of the United States of America; or
- General or revenue obligations of the State of Delaware or its municipalities, subdivisions, public housing authorities, or any agency or instrumentality of the State of Delaware.

As an investor, the Town may invest in any of the above-cited instruments and/or certificates of deposit or repurchase agreements fully collateralized by one or more of the above-cited instruments.

The Town maintains a cash and investment pool that is available for use by all funds. This pool is displayed on the balance sheet and the statement of net assets as either cash or investments. Deposits and investments of governmental, proprietary, and fiduciary funds are reported at fair value.

1. Cash and Cash Equivalents

The carrying amount of the cash accounts and cash on hand was \$707,431. The bank balances were \$1,203,547. Of the bank balances, \$121,696 was covered by Federal Depository Insurance. The remaining balance was secured by collateral consisting of uninsured and unregistered investments held by the pledging financial institution, but not in the Town's name.

The above does not include pension fund deposits disclosed in Notes G and H.

2. Investments

The Town's investments, which are reported at fair value, are categorized below to give an indication of the level of risk assumed at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments with securities held by the counterparty's trust department or agent in the Town's name. Category 3 includes uninsured or unregistered investments with securities held by the counterparty's trust department or agent not in the Town's name. The following is a schedule that details the Town's investments categorized by risk:

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note C - Cash, Cash Equivalents, and Investments (Continued)

2. Investments (Continued)

| | Category | | | Fair Value |
|-------------------------|--------------------|-------------|--------------------|--------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | |
| U.S. Treasury bills | \$3,197,882 | \$ - | \$ - | \$3,197,882 |
| Certificates of deposit | 143,000 | - | - | 143,000 |
| Mutual funds | - | - | 4,299,785 | 4,299,785 |
| | <u>\$3,340,882</u> | <u>\$ -</u> | <u>\$4,299,785</u> | <u>\$7,640,667</u> |

The above does not include pension fund investments disclosed in Notes G and H.

Note D - Capital Assets

The capital asset activity for the year ended December 31, 2004 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|--------------------------|--------------------|------------------|-----------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 797,768 | \$ 14,800 | \$ - | \$ 812,568 |
| Construction in progress | - | 318,475 | - | 318,475 |
| Total capital assets not being depreciated | <u>797,768</u> | <u>333,275</u> | <u>-</u> | <u>1,131,043</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 2,018,087 | 288,182 | 7,700 | 2,298,569 |
| Infrastructure | 3,856,942 | 401,453 | - | 4,258,395 |
| Land improvements | 382,300 | 132,379 | - | 514,679 |
| Machinery and equipment | <u>2,030,713</u> | <u>238,612</u> | <u>14,460</u> | <u>2,254,865</u> |
| Total capital assets being depreciated | <u>8,288,042</u> | <u>1,060,626</u> | <u>22,160</u> | <u>9,326,508</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | 636,083 | 44,401 | 7,700 | 672,784 |
| Infrastructure | 2,909,382 | 73,123 | - | 2,982,505 |
| Land improvements | 282,492 | 19,303 | - | 301,795 |
| Machinery and equipment | <u>847,243</u> | <u>243,961</u> | <u>14,460</u> | <u>1,076,744</u> |
| Total accumulated depreciation | <u>4,675,200</u> | <u>380,788</u> | <u>22,160</u> | <u>5,033,828</u> |
| Total capital assets being depreciated, net | <u>3,612,842</u> | <u>679,838</u> | <u>-</u> | <u>4,292,680</u> |
| Governmental activities assets, net | <u>\$4,410,610</u> | <u>\$1,013,113</u> | <u>\$ -</u> | <u>\$5,423,723</u> |

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note D - Capital Assets (Continued)

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|--------------------|--------------------|---------------------------|
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 45,171 | \$ - | \$ - | \$ 45,171 |
| Construction in progress | <u>1,658,271</u> | <u>402,887</u> | <u>1,658,271</u> | <u>402,887</u> |
| Total capital assets not being depreciated | <u>1,703,442</u> | <u>402,887</u> | <u>1,658,271</u> | <u>448,058</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 977,900 | 144,314 | - | 1,122,214 |
| Infrastructure | 4,833,430 | 2,219,939 | - | 7,053,369 |
| Machinery and equipment | <u>872,324</u> | <u>85,976</u> | <u>-</u> | <u>958,300</u> |
| Total capital assets being depreciated | <u>6,683,654</u> | <u>2,450,229</u> | <u>-</u> | <u>9,133,883</u> |
| Accumulated depreciation: | | | | |
| Building and improvements | 363,337 | 21,401 | - | 384,738 |
| Infrastructure | 1,780,888 | 194,217 | - | 1,975,105 |
| Machinery and equipment | <u>504,653</u> | <u>63,879</u> | <u>-</u> | <u>568,532</u> |
| Total accumulated depreciation | <u>2,648,878</u> | <u>279,497</u> | <u>-</u> | <u>2,928,375</u> |
| Total capital assets being depreciated, net | <u>4,034,776</u> | <u>2,170,732</u> | <u>-</u> | <u>6,205,508</u> |
| Business-type activities assets, net | <u>\$5,738,218</u> | <u>\$2,573,619</u> | <u>\$1,658,271</u> | <u>\$6,653,566</u> |

Depreciation expense was charged to the functions as follows:

| | |
|--|------------------|
| Governmental activities | |
| General government | \$ 32,886 |
| Public safety | 65,495 |
| Public works | 126,810 |
| Planning and inspection | 11,398 |
| Library | 137,483 |
| Culture and recreation | <u>6,716</u> |
| Total depreciation expense - governmental activities | <u>\$380,788</u> |

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note D - Capital Assets (Continued)

| | |
|--|------------------|
| Business-type activities | |
| Electric | \$140,821 |
| Water | <u>138,676</u> |
| Total depreciation expense - business-type activities | <u>\$279,497</u> |

Note E - Long-Term Debt

A schedule of changes in long-term debt was as follows at December 31, 2004:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year</u> |
|--------------------------|------------------------------|--------------------|------------------|---------------------------|--|
| Governmental activities | | | | | |
| Compensated absences | <u>\$415,346</u> | <u>\$ 237,126</u> | <u>\$143,027</u> | <u>\$ 509,445</u> | <u>\$175,402</u> |
| Business-type activities | | | | | |
| Loans payable | <u>\$ 75,000</u> | <u>\$1,692,841</u> | <u>\$ 39,629</u> | <u>\$1,728,212</u> | <u>\$ 73,073</u> |
| Compensated absences | <u>126,626</u> | <u>52,604</u> | <u>50,299</u> | <u>128,931</u> | <u>50,994</u> |
| Total | <u>\$201,626</u> | <u>\$1,745,445</u> | <u>\$ 89,928</u> | <u>\$1,857,143</u> | <u>\$124,067</u> |

Loans Payable

Loan payable issued by the Delaware Economic Development Authority to fund the Town's water main expansion, which will serve the WalMart Distribution Center on Route 300. The loan matures on May 1, 2013 and bears no interest. Annual principal payments in the amount of \$7,500 are due on May 1.

\$ 67,500

Loan payable issued by the Delaware Department of Natural Resources and Environmental Control and administered by the Delaware Department of Health and Social Services to fund a drinking water well located on Carter Road. The loan matures on May 1, 2024 and bears interest at 2.72% payable on May 1 and November 1.

1,660,712
\$1,728,212

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note E - Long-Term Debt (Continued)

An analysis of debt service requirements to maturity on the loans was as follows at December 31, 2004:

| <u>December 31</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Maturities</u> |
|--------------------|--------------------|------------------|-------------------------|
| 2005 | \$ 73,073 | \$ 44,729 | \$ 117,802 |
| 2006 | 74,869 | 42,933 | 117,802 |
| 2007 | 76,714 | 41,088 | 117,802 |
| 2008 | 78,610 | 39,192 | 117,802 |
| 2009 | 80,557 | 37,245 | 117,802 |
| 2010 - 2014 | 426,414 | 155,097 | 581,511 |
| 2015 - 2019 | 453,750 | 97,762 | 551,512 |
| 2020 - 2024 | <u>464,225</u> | <u>32,136</u> | <u>496,361</u> |
| Total | <u>\$1,728,212</u> | <u>\$490,182</u> | <u>\$2,218,394</u> |

Note F - Interfund Transfers

The composition of interfund transfers for the year ended December 31, 2004 was as follows:

| | <u>Transfer In</u> | <u>Transfer Out</u> |
|----------------------|--------------------|---------------------|
| General Fund | \$4,567,923 | \$1,101,678 |
| Capital Reserve Fund | 1,101,678 | - |
| Electric Fund | - | 1,757,108 |
| Water and Sewer Fund | - | <u>2,810,815</u> |
| Total | <u>\$5,669,601</u> | <u>\$5,669,601</u> |

Transfers represent funds set aside for the anticipation of future capital needs and funds from the proprietary funds to subsidize general fund activities.

Note G - Police Pension Fund

Plan Description and Provisions

The Town's police pension fund is a single-employer defined benefit pension plan established to provide a retirement income to supplement the benefits payable under Social Security. The full cost of the plan is assumed by the Town. Contributions are not required of the Town's police officers.

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note G - Police Pension Fund (Continued)

Plan Description and Provisions (Continued)

The plan was established as of January 1, 1996, spun off in 1975 to create the current plans revised as of January 1994. The financial records are maintained on a plan year that begins each January 1 and ends on December 31.

The plans are administered by the Committee (Plan Administration) that is comprised of the Mayor and Town Council. The Committee is fully responsible for the plan's administration, including eligibility for participation and determination of benefits. The Town Council has delegated the authority to manage certain plan assets to Linsco/Private Ledger Financial Services and Aetna Life Insurance Company.

As of January 1, 2004, pension plan membership consisted of the following:

| | |
|---|-----------|
| Active employees | 17 |
| Retirees and beneficiaries currently deferring benefits | 8 |
| Retirees and beneficiaries currently receiving benefits | <u>4</u> |
| | <u>29</u> |

Police pension fund plan benefit provisions are as follows:

All police officers are eligible to participate in the plan after completing one year of service, if they have attained their 21st birthday and 1,000 hours of continuous employment during the plan year.

Effective January 1, 1993, employees who are discharged or resign before qualifying for retirement benefits will be entitled to 100% vested interest in their accrued pension benefits, payable as of the first day of the month following their normal retirement date provided that they have completed at least five full years of service to the Town.

For employees hired on or before April 19, 1999, the pension plan provides for normal retirement at the earlier of attainment of age 50 and completion of 10 years of participation or completion of 30 years of vesting service.

For employees hired after April 19, 1999, the plan provides for normal retirement at the earlier of attainment of age 55 and completion of 10 years of participation or completion of 35 years of vesting service.

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note G - Police Pension Fund (Continued)

Plan Description and Provisions (Continued)

Participant benefits are based on 2% of final average compensation multiplied by benefit service not to exceed 40 years.

There is no provision for early retirement.

Basis of Accounting

The plan's policy is to prepare its financial statements on the accrual basis of accounting.

Deposits

At December 31, 2004, the carrying amount and bank balance of the police pension fund cash equivalents was \$365,906, of which \$21,830 was covered by collateral held by the Town's agent, but not in the Town's name, and \$344,076 equal to the deposits in a federated prime obligations fund held by the trustee of the pension in the Town's name.

Valuation of Investments

In accordance with GASB No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities and pay administrative expenses charged by the company. The value of insurance contracts in the police pension fund at December 31, 2004 was \$1,085,899.

Investments in external investment pools, such as those of the Town police pension fund or in mutual funds are disclosed but not categorized because they are not evidenced by securities that exist in physical or book entry form. The value of mutual funds in the police pension fund at December 31, 2004 was \$795,923.

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note G - Police Pension Fund (Continued)

Administrative Costs

Administrative costs, including the investment manager, custodial trustee, and actuarial services, are charged and paid by short-term assets of the plan.

Concentrations

At December 31, 2004, the following are investments, other than U.S. Government and U.S. Government guaranteed obligations, in any one organization that represent 5% or more of plan assets ($\$2,247,728 \times .05 = \$112,386$):

| | |
|------------------------------|-------------|
| Aetna Life Insurance Company | \$1,085,899 |
| Calvert Large Cap | \$134,674 |
| Hotchkis & Wiley FDS | \$118,301 |

Annual Pension Cost

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal method assuming an investment return of 7% and a compensation increase of 4.5% per year. Prior to the 2004 fiscal year, employer contributions were determined on an actuarial basis using the frozen age entry method. The change in the Town's funding policy from the frozen age entry method to the entry age normal method was implemented to eliminate the plan's unfunded actuarial liability at the end of 15 years from January 1, 2004.

The entry age normal method determines a projected benefit at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that, if it were calculated as a level percentage of compensation each year, it would accumulate at the valuation interest rate over the total prior and future years of service to the assumed retirement date into an amount sufficient to fund the projected benefit. The plan's accrued liability is the sum of the accumulation of each active participant's normal costs attributable to all prior years of service plus the present value of each inactive participant's future benefits.

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note G - Police Pension Fund (Continued)

Annual Pension Cost (Continued)

| <u>Fiscal Year Ended</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation (Asset)</u> |
|----------------------------------|--------------------------------------|--|---|
| 12/31/04 | \$362,308 | 100.00% | \$ - |
| 12/31/03 | 216,631 | 100.00% | - |
| 12/31/02 | 177,438 | 100.00% | - |

The above information regarding the police pension fund was taken from the January 1, 2004 Actuarial Valuation presented by Milliman USA, Inc., signed by Graham A. Harrison, FSA and Jill M. Stanulis, EA, dated December 2004.

Note H - Full-Time Employee Pension Fund

Plan Description and Provisions

The Town's full-time employee pension fund is a single-employer defined benefit pension plan established to provide a retirement income to supplement the benefits payable under Social Security. The full cost of the plan is assumed by the Town. Contributions are not required of the Town's employees.

The plan was established as of January 1, 1996, spun off in 1975 to create the current plans revised as of January 1994. The financial records are maintained on a plan year that begins each January 1 and ends on December 31.

The plans are administered by the Committee (Plan Administration) that is comprised of the Mayor and Town Council. The Committee is fully responsible for the plan's administration, including eligibility for participation and determination of benefits. The Town Council has delegated the authority to manage certain plan assets to Linsco/Private Ledger Financial Services and Aetna Life Insurance Company.

As of January 1, 2004, pension plan membership consisted of the following:

| | |
|---|-----------|
| Active employees | 36 |
| Retirees and beneficiaries currently deferring benefits | 18 |
| Retirees and beneficiaries currently receiving benefits | <u>8</u> |
| | <u>62</u> |

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note H - Full-Time Employee Pension Fund (Continued)

Plan Description and Provisions (Continued)

Full-time employee pension fund plan benefit provisions are as follows:

All full-time employees are eligible to participate in the plan after completing one year of service, if they have attained their 21st birthday and 1,000 hours of continuous employment during the plan year.

Effective January 1, 1993, employees who are discharged or resign before qualifying for retirement benefits will be entitled to 100% vested interest in their accrued pension benefits, payable as of the first day of the month following their normal retirement date provided that they have completed at least five full years of service to the Town.

The pension plan provides for normal retirement at age 65 and completion of 10 years of participation.

Participant benefits are based on 2% of final average compensation multiplied by benefit service not to exceed 40 years.

Eligibility for early retirement benefit is age 55 and 10 years of vesting service.

Deposits

At December 31, 2004, the carrying amount and bank balance of the full-time employee pension fund cash equivalents was \$54,716, of which \$36,342 was covered by collateral held by the Town's agent, but not in the Town's name, and \$18,374 equal to the deposits in a federated prime obligations fund held by the trustee of the pension in the Town's name.

Valuation of Investments

In accordance with GASB No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note H - Full-Time Employee Pension Fund (Continued)

Valuation of Investments (Continued)

The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities and pay administrative expenses charged by the company. The value of insurance contracts in the full-time employee pension fund at December 31, 2004 was \$1,238,443.

Investments in external investment pools, such as those of the Town full-time employee pension fund or in mutual funds are disclosed but not categorized because they are not evidenced by securities that exist in physical or book entry form. The value of mutual funds in the full-time employee pension fund at December 31, 2004 was \$886,281.

Administrative Costs

Administrative costs, including the investment manager, custodial trustee, and actuarial services, are charged and paid by short-term assets of the plan.

Concentrations

At December 31, 2004, the following are investments, other than U.S. Government and U.S. Government guaranteed obligations, in any one organization that represent 5% or more of plan assets ($\$2,179,440 \times .05 = \$108,972$):

| | |
|------------------------------|-------------|
| Aetna Life Insurance Company | \$1,238,443 |
| Brandywine Blue FD Inc. | \$137,560 |
| Calvert Large Cap | \$133,571 |

Annual Pension Cost

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal method assuming an investment return of 7% and a compensation increase of 4.5% per year. Prior to the 2004 fiscal year, employer contributions were determined on an actuarial basis using the frozen age entry method. The change in the Town's funding policy from the frozen age entry method to the entry age normal method was implemented to eliminate the plan's unfunded actuarial liability at the end of 15 years from January 1, 2004.

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note H - Full-Time Employee Pension Fund (Continued)

Annual Pension Cost (Continued)

The entry age normal method determines a projected benefit at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that, if it were calculated as a level percentage of compensation each year, it would accumulate at the valuation interest rate over the total prior and future years of service to the assumed retirement date into an amount sufficient to fund the projected benefit. The plan's accrued liability is the sum of the accumulation of each active participant's normal costs attributable to all prior years of service plus the present value of each inactive participant's future benefits.

| <u>Fiscal Year Ended</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation (Asset)</u> |
|----------------------------------|--------------------------------------|--|---|
| 12/31/04 | \$288,522 | 100.00% | \$ - |
| 12/31/03 | 149,474 | 100.00% | - |
| 12/31/02 | 188,411 | 100.00% | - |

The above information regarding the full-time employee pension fund was taken from the January 1, 2004 Actuarial Valuation presented by Milliman USA, Inc., signed by Graham A. Harrison, FSA and Jill M. Stanulis, EA, dated December 2004.

Note I - Post-Employment Retirement Benefits

In addition to the pension benefits described in Notes G and H, the Town provides post-employment retirement healthcare benefits for employees that meet eligibility requirements. The benefit allows employees to continue under the Town health insurance group plan with coverage being provided only to the retired employee and his or her spouse with the following limits:

Employees retiring prior to September 15, 1997:

- The retired employee shall pay 15% of the total premium costs.
- Employees must meet the service time and age schedule at the time they retire from the Town to be eligible for participation in the plan.

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note I - Post-Employment Retirement Benefits (Continued)

- Upon the death of the retired employee, spouses are permitted to maintain individual coverage on the plan, but shall pay 100% of the cost.
- The Town's cost for the spouse's coverage shall not exceed the cost of the retired employee's coverage.

As of December 31, 2004, three employees were eligible for this benefit.

Employees retiring on September 15, 1997 and thereafter:

- The Town will pay 100% of the total premium cost for the retired employee.
- Employees must meet the service time and age schedule at the time they retire from the Town to be eligible for participation in the plan.

As of December 31, 2004, no employees were eligible for this benefit.

Union Employees

Union employees are excluded from all post-employment retirement benefits.

Post-employment retirement benefits are recognized when paid. Post-employment retirement benefits for the year ended December 31, 2004 totaled \$20,319.

Note J - Deferred Compensation Plan

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The plan is available to all employees until termination, retirement, death, or unforeseeable emergency. The assets of the plan are held for the exclusive benefit of the plan participants and their beneficiaries, and the assets shall not be diverted for any other purpose. Each participant directs the investments in his/her respective accounts, and the Town has no liability for any losses that may be incurred. Due to recently approved federal legislation, the Section 457 plan assets were placed in trust for the exclusive benefit of all employees and their beneficiaries and are not available to the creditors of the Town. For this reason, the assets and related liabilities of the plan have been removed from the financial records of the Town and not included in the accompanying financial statements.

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note K - Commitments and Contingencies

The Town participates in state and county assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Town is potentially liable for any expenditures that may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance that would result in the disallowance of program expenditures.

The Town purchases wholesale electricity from the Delaware Municipal Electric Corporation (DEMEC) for resale. The Town, along with nine other municipalities, are the members of DEMEC. As of October 13, 2003, the Town renewed its power sales contract with DEMEC from January 1, 2004 through May 31, 2005.

Note L - Land Held for Resale

On October 24, 1995, the Town entered into an agreement with the Delaware Economic Development Office to obtain funding for the purchase of property to be used for the development of the Smyrna Industrial Park. On July 25, 1996, the Town purchased 95.8286 acres for \$1 million with funds supplied by the State of Delaware Economic Development Office. In accordance with the agreement, the Town has provided matching funds equal to the purchase price of the property. The matching funds were used for infrastructure, consulting, and marketing associated with the project.

The Town designated 50.69 acres of the Smyrna Industrial Park as land held for resale. The Town recorded these parcels of land held for resale in its financial records. The properties held for resale are recorded at the lower of cost or net realizable value. At December 31, 2004, remaining land held for resale totaled \$45,080 (4.32 acres), with this amount offset by a reservation of fund balance in the governmental funds financial statements.

Note M - Risk Management

The Town maintains commercial insurance coverage for risk of losses relating to general, automotive, police professional, public officials, and crime. There has been no significant change in coverage and there have been no losses above insurance limits during the past year.

Town of Smyrna, Delaware

Notes to Financial Statements (Continued)

Note N - Prior Period Adjustments

Amounts received for transfer taxes from Kent County in January of 2004 related to transfer taxes assessed and paid in December 2003 were not correctly recognized in fiscal year 2003, resulting in an understatement of \$162,158 in the general fund balance as of December 31, 2003. A prior period adjustment has been reflected in the financial statements to correct this error.

Completion of an appraisal of the Town's capital assets and the adoption of a capital assets policy, which identified all of the Town's assets and established thresholds for asset capitalization, resulted in a restatement of net assets in the electric and water and sewer funds as of December 31, 2003. As a result of the prior period adjustments, electric fund net assets decreased by \$117,892 and water and sewer net assets increased by \$1,594,244 as of December 31, 2003.

Note O - Subsequent Event

On April 18, 2005 and June 20, 2005, the Town Council of the Town of Smyrna approved the following resolutions to the contracts of all sworn full-time police officers who were employed by the Town as of December 31, 2004.

Retiree Health Insurance Coverage

The Town shall pay 85% of health insurance coverage of the spouse and all eligible dependents for eligible retired employees, with the retired employee responsible for the remaining 15%.

Pension

Full-time police employees will be eligible to enroll in the pension plan after completing 20 years of service with the Town or having reached age 50 with 10 years of service with the Town.

Upon retirement, employees shall receive retirement income equal to 2½% of the average compensation of the employee over three consecutive calendar years before the first day of the month coincident with the employee's normal or actual retirement date, whichever is applicable; or, if applicable and earlier, the first day of the month following the date such employee ceases to be an active participant in the plan.

The effects of the above changes have not yet been determined by the Town.

Required Supplementary Information

Town of Smyrna, Delaware

Schedule of Funding Progress - Pension Plans

December 31, 2004

| Calendar Year | (1) Actuarial Value of Assets | (2) Actuarial Accrued Liability | (3) Percentage Funded (1)/(2) | (4) Unfunded (assets in excess of) Accrued Liability (2)-(1) | (5) Annual Covered Payroll | Unfunded (assets in excess of) Accrued Liability as a % of Payroll (4)/(5) |
|---------------------------|--|--|--|--|-------------------------------------|---|
| Police | | | | | | |
| 1/1/00 | 1,309,797 | 1,356,706 | 96.54% | 46,909 | 461,745 | 10.16% |
| 1/1/01 | 1,371,152 | 1,428,869 | 95.96% | 57,717 | 424,894 | 13.58% |
| 1/1/02 | 1,435,399 | 1,746,058 | 82.21% | 310,659 | 578,322 | 53.72% |
| 1/1/03 | 1,404,522 | 1,862,529 | 75.41% | 458,007 | 654,884 | 69.94% |
| 1/1/04 | 2,125,582 | 2,979,009 | 71.35% | 853,427 | 850,731 | 100.32% |
| Full-Time Employee | | | | | | |
| 1/1/00 | 1,466,844 | 1,466,844 | 100.00% | - | 878,731 | 0.00% |
| 1/1/01 | 1,513,936 | 1,521,186 | 99.52% | 7,250 | 899,597 | 0.81% |
| 1/1/02 | 1,548,106 | 1,875,841 | 82.53% | 327,735 | 1,174,217 | 27.91% |
| 1/1/03 | 1,514,451 | 2,005,501 | 75.51% | 491,050 | 910,072 | 53.96% |
| 1/1/04 | 2,053,994 | 2,626,331 | 78.21% | 572,337 | 1,319,652 | 43.37% |

Effective for the year beginning January 1, 2004, actuarial valuations were calculated using the entry age normal actuarial cost method. Prior year actuarial valuations were calculated using the frozen age entry actuarial cost method.

The above information regarding the police and full-time employee pension funds was taken from Actuarial Valuations presented by Milliman, USA, Inc. signed by Graham A. Harrison, FSA, and Jill M. Stanulis, EA.

Town of Smyrna, Delaware

Combining Balance Sheet -
Nonmajor Governmental Funds

December 31, 2004

| | Municipal Street Aid Fund | S.A.L.L.E. Fund | E.I.D.E. Fund | Resource Officer Fund | Forfeiture Fund | Totals |
|---------------------------|---------------------------------|--------------------|------------------|-----------------------------|--------------------|-------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ - | \$ 8,979 | \$ 4,367 | \$ 11,131 | \$ 23,835 | \$ 48,312 |
| Investments | 554,879 | - | - | - | - | 554,879 |
| TOTAL ASSETS | <u>\$ 554,879</u> | <u>\$ 8,979</u> | <u>\$ 4,367</u> | <u>\$ 11,131</u> | <u>\$ 23,835</u> | <u>\$ 603,191</u> |
| FUND BALANCE | | | | | | |
| Unreserved | <u>\$ 554,879</u> | <u>\$ 8,979</u> | <u>\$ 4,367</u> | <u>\$ 11,131</u> | <u>\$ 23,835</u> | <u>\$ 603,191</u> |
| TOTAL FUND BALANCE | <u>\$ 554,879</u> | <u>\$ 8,979</u> | <u>\$ 4,367</u> | <u>\$ 11,131</u> | <u>\$ 23,835</u> | <u>\$ 603,191</u> |

Town of Smyrna, Delaware

Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds

For the Year Ended December 31, 2004

| | Municipal Street Aid Fund | S.A.L.L.E. Fund | E.I.D.E. Fund | Resource Officer Fund | Forfeiture Fund | Total |
|----------------------------------|---------------------------------|--------------------|------------------|-----------------------------|--------------------|---------------------|
| REVENUES | | | | | | |
| Intergovernmental Interest | \$ 87,997 7,803 | \$ 10,613 - | \$ 7,488 - | \$ 15,047 - | \$ 7,927 - | \$ 129,072 7,803 |
| Total revenues | 95,800 | 10,613 | 7,488 | 15,047 | 7,927 | 136,875 |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| Public works - streets | 55,867 | - | - | - | - | 55,867 |
| Public safety - police | - | 6,448 | 4,592 | 18,421 | 26,125 | 55,586 |
| Total expenditures | 55,867 | 6,448 | 4,592 | 18,421 | 26,125 | 111,453 |
| CHANGE IN NET ASSETS | 39,933 | 4,165 | 2,896 | (3,374) | (18,198) | 25,422 |
| FUND BALANCE - BEGINNING OF YEAR | 514,946 | 4,814 | 1,471 | 14,505 | 42,033 | 577,769 |
| FUND BALANCE - END OF YEAR | \$ 554,879 | \$ 8,979 | \$ 4,367 | \$ 11,131 | \$ 23,835 | \$ 603,191 |